MIC 2016
Management International Conference
Pula, Croatia • 1–4 June 2016

Accountability of Managers and Long-term Development of Companies

Matjaz Nahtigal
University of Primorska, Faculty of Management, Slovenia
matjaz.nahtigal@fm-kp.si

The present article explores the relation between the legal accountability of managers and long-term successful development of companies. The point of departure for the research is a claim that different ownership structures of the companies may lead to different behaviour of managers and therefore to different results of the companies. More specifically, managers can focus primarily on short-term positive results or long-term sustainable development of the companies partly due to different ownership structures of the companies.

This claim is counterintuitive and it contradicts the standard model of corporate governance and corporate behaviour. Standard model of corporate governance claims that the ownership structure is largely irrelevant, because of the efficiency claim of property rights based on the Coase's theorem.

The research method is comparative corporate governance, based on classical theoretical insights improved with the recent experience with the mass privatization in Central and Eastern Europe and with the corporate failures during the financial crisis in some of the leading countries in the world.

It shall be argued that balanced and diverse ownership, and a transparent and development supportive public framework, seem to be important elements for the behaviour of firms and their successful development. They are not, however, the only ingredients. Among them, high quality professional and well educated management must be included. High quality management is capable of competing with their international counterparts and has a strong sense of responsibility to shareholders, employees and public at large (on the long-term commitment of the firms toward sustainable development see Mayer, 2013). This is an important element that was not sufficiently taken into account during the period of transition.

The idea that the accountability of managers spans well beyond the responsibility to the shareholders is something that was well accepted in most of the advanced economies in the twentieth century. This idea may have been lost in the last few decades, but it may return after the crisis. In the context of transition and post-transition, however, the broader idea of accountability of managers to other stakeholders, not only shareholders, carries with it another important but little understood dimension. Namely, in the period of mass privatization, the alliance of dominant shareholders, privileged and protected insiders, managers and interest groups turned out to be a major impediment for sustainable and successful long-term development of firms.

To overcome this impasse, a broader alliance of shareholders, more balanced and diversified, as well as an alliance with other stakeholders must be created. This transformation could be called a transition from privileged and protected rent-seekers toward a genuine development oriented society with balanced and well articulated interests of both the shareholders and stakeholders alike. Only then would the advanced and sophisticated debate on shareholders vs. stakeholders make sense for the transition economies and societies.

Keywords: ownership structure, legal accountability, transparency of public institutions, short-termism vs. long-termism